



**U.S.-Japan Relations:
Weathering Political and Economic Turmoil**

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The quarter began with President Bush and Prime Minister Fukuda meeting on the sidelines of the G8 summit in Hokkaido, but their bilateral agenda and Fukuda's own premiership were eclipsed by dramatic political and economic developments in both countries. Fukuda resigned suddenly on Sept. 1 having failed to convince the public he could strengthen the economy and move important legislation through a divided legislature. Aso Taro won the Liberal Democratic Party (LDP) presidential race in a landslide and began his tenure as prime minister stressing economic stimulus measures, the importance of the U.S.-Japan alliance, and Japan's role as a global leader, but with uncertainty about whether his government would even survive to the end of the year. Ozawa Ichiro was re-elected president of the opposition Democratic Party of Japan (DPJ) and touted a populist manifesto to woo the public in anticipation of a Lower House election this fall. Meanwhile, the U.S. government struggled to contain a financial crisis that rattled world markets, prompting Japanese banks to take major stakes in ailing U.S. businesses. A successful ballistic missile defense test in September augured well for sustained bilateral defense cooperation, assuming defense budgets survive the current financial turmoil. And North Korea's move toward reprocessing plutonium at Yongbyon threatened to erase the diplomatic progress made in the Six-Party Talks at a time when leaders in Washington and Tokyo already had plenty of diplomatic challenges and tough domestic elections to manage.

Aso takes over; election rumors

Prime Minister Fukuda Yasuo hoped to boost his approval ratings after hosting the G8 summit in July, but the public rewarded him with a much smaller bump than he had expected. He tried again by revamping his Cabinet on Aug. 1 and a few weeks later by unveiling a stimulus package worth \$107 billion, only to see his popularity drop even further. Frustrated by his inability to win popular support or convince his recalcitrant coalition partner, the New Komei Party, to support his legislative agenda, Fukuda stepped down Sept. 1 and argued that someone else in the LDP might succeed where he had failed. While some pundits blamed Fukuda's lackluster political style, it is hard to see how any political leader could overcome the policy paralysis in the Diet that resulted when the opposition parties wrested control of the Upper House after July 2007 elections. Still, the LDP held out hope that colorful former Foreign Minister Aso Taro might add new energy to the government coalition and elected him party president on Sept. 22 with a wide margin over four other contenders for the top job. On Sept. 24, the Diet approved Aso as Japan's fourth prime minister in four years. Meanwhile, Ozawa Ichiro was re-elected president of the DPJ Sept. 21, setting up a battle between two veterans of Japanese politics.

Aso flew to New York on Sept. 25 to address the United Nations General Assembly in a speech that argued Japan will maintain its global leadership role in areas such as development, nonproliferation, regional diplomacy, and the war on terror. Once back in Tokyo, he moved quickly to improve his party's standing with the public by proposing a supplementary budget and arguing for tax cuts and other stimulus measures. In his opening address to the Diet on Sept. 29, Aso vowed to stimulate the economy and address other issues such as pension reform, health care, and regional revitalization. He also accused the DPJ of putting politics ahead of the livelihood of the people and challenged the opposition to articulate positions on key foreign policy issues such as Japan's refueling mission in the Indian Ocean, set to expire in January 2009, to support coalition operations in Afghanistan. For his part, Ozawa pushed a populist policy platform focused on reform of the pension and health care systems and "putting money in the hands of the people" by providing subsidies for education, reducing a gasoline tax, and cutting spending by eliminating government-affiliated research organizations. He also advocated increased support for small- and medium-size enterprises in rural areas, a key constituency linked traditionally to the LDP but courted by the DPJ in the 2007 Upper House elections.

Conventional wisdom dictated Aso would try to pass a supplementary budget in the Diet and then dissolve the Lower House, sometime in the fall, even though an election need not be held until fall 2009. Several public opinion polls released in late September had Aso's approval rating hovering close to 50 percent with the LDP slightly more popular than the DPJ. A *Kyodo News* poll published Sept. 25 showed a public preference for Aso over Ozawa, 53.9 percent to 29.4 percent. However, respondents were split over which party they intended to support in the next general election with 34.9 percent favoring the LDP and 34.8 percent the DPJ. Aso's strategy will clearly be to make this a contest between himself and Ozawa. If Aso succeeds and maintains the coalition majority in the Lower House, he can argue that the LDP has a popular mandate and try to win defections from the opposition to regain control of the Upper House. But even in that best case scenario for the LDP, the government will lose its two-thirds supermajority and no longer have the option of forcing bills through the Lower House when obstructed by the Upper House. On the other hand, a convincing victory by the DPJ would remove the LDP from power for the first time since 1994. The question then would become whether the ideologically diverse DPJ could hold together in power. Some pundits suggested another election could follow within months regardless of which party is in power due to fissures within both camps, which could increase the probability of a major political realignment to end the stalemate in the Diet.

Trying to sustain the bilateral agenda

President Bush met with Fukuda on the sidelines of the G8 summit in July just a week after Bush had announced his decision to begin the process of removing North Korea from the State Sponsors of Terrorism List, interpreted by many in the Japanese media as a betrayal of a pledge not to do so until the fate of Japanese abductees had been resolved. The president reiterated his commitment to the abductees in a joint press conference and held up a book written by Yokota Sakie, the mother of an abductee, whom he greeted at the White House back in 2006. The two leaders agreed on the need to verify the nuclear declaration submitted by North Korea in June and push forward with denuclearization. The two key elements of the G8 agenda, climate

change and development in Africa, also garnered significant attention and set the stage for bilateral cooperation in those areas.

The realignment of U.S. forces in Okinawa remained a top agenda item for the alliance, though political turmoil in Japan appeared to have slowed down that process. One bright spot continues to be missile defense cooperation. On Sept. 17, the Air Self-Defense Force (ASDF) conducted a successful test of the *Patriot (PAC-3)* ballistic missile defense system at the White Sands Missile Range in New Mexico. The Defense Ministry also announced that the Maritime Self-Defense Force would conduct a test of the sea-based *SM-3* missile over the Pacific near Hawaii in November. The nuclear-powered aircraft carrier *U.S.S. George Washington* arrived at Yokosuka naval base Sept. 25, the first such carrier to be forward deployed in Japan.

The deadlock in the Diet led to increased uncertainty about what Tokyo might do next in the realm of global security. The Defense Ministry announced in September that ASDF personnel conducting airlift operations between Kuwait and Iraq would be withdrawn by the end of this year. The fate of the refueling mission in the Indian Ocean was unclear and analysts questioned whether Japan could consider other missions to support coalition operations in Afghanistan. Prime Minister Aso vowed to push for an extension of the refueling mission and stated publicly his belief that Japan should reinterpret the constitution to exercise the right of collective self defense. Ozawa's position on Afghanistan is unclear; he has adamantly opposed the refueling mission and declared it unconstitutional but also stated in 2007 that Japan might be able to support the International Security Assistance Force (ISAF) in Afghanistan, a much more dangerous mission. Ozawa generally favors Self-Defense Force (SDF) deployments strictly under United Nations auspices. Officials could not expect movement on these issues before the political impasse is resolved.

Agricultural protectionism derailed the latest round of World Trade Organization (WTO) negotiations in Geneva in July. The collapse of the Doha Round, and the lack of movement on the U.S.-Republic of Korea (KORUS) bilateral free trade agreement, seemed to stunt any momentum the U.S. and Japan might have generated on trade liberalization. The governments did issue reports on investment and regulatory reform in July, signaling a sustained commitment to the bilateral framework known as the Economic Partnership for Growth (EPG). In August, the Ministry of Finance reported that Japan posted its first trade deficit in 26 years due to high oil prices and decreased demand from the U.S. The financial crisis put U.S. and Japanese financial firms in the headlines in September as Mitsubishi UFJ Group agreed to take a 21 percent stake in Morgan Stanley, and Nomura Holdings, Inc. acquired some Asian, European, and Middle Eastern portfolios of Lehman Brothers.

Pyongyang changes course

The submission of a nuclear declaration by North Korea in late June and the symbolic destruction of the cooling tower at the Yongbyon complex led to a heads of delegation meeting of the Six-Party Talks in mid-July. The parties determined that a Denuclearization Working Group would settle on the details of a verification mechanism for declaration previously submitted by North Korea. North Korea also agreed to complete the disablement of the Yongbyon facility by the end of October 2008. The six foreign ministers of the member

countries to the Six-Party Talks then met informally on the margins of the ASEAN Regional Forum (ARF) in Singapore in late July, again focusing on the verification protocol. The Japan-DPRK Working Group made some progress on the abduction issue in August as North Korea promised to re-open an investigation to determine the fate of missing Japanese citizens; Japan in turn would end the ban on travel between the DPRK and Japan (instituted after North Korea tested a nuclear weapon in October 2006) once that investigation was initiated. North Korea then jeopardized the entire process by announcing Sept. 19 its intentions to restore the nuclear complex at Yongbyon, accusing the U.S. of violating the spirit of “action for action” by not removing North Korea from its State Sponsors of Terrorism List. Japan extended economic sanctions against North Korea for six months in response to that announcement and Pyongyang’s failure to reopen the investigation on the abductees. U.S. Assistant Secretary of State Christopher Hill was in Seoul Sept. 30 preparing for a trip to Pyongyang in a last-ditch attempt to save the Six-Party Talks.

The fourth quarter

The U.S., and possibly Japan, will elect a new leader next quarter, symbolizing a fresh start for an alliance with several bilateral, regional, and global priorities. Both governments will have to weather political transitions as their respective economies weaken. The fallout from the financial crisis will take center stage during a meeting of G7 finance ministers in conjunction with the fall meetings of the World Bank and International Monetary Fund in Washington. Japan’s development aid profile will reach new heights in October when the Japan International Cooperation Agency (JICA) merges with part of the Japan Bank for International Cooperation (JBIC) to become the world’s largest bilateral development agency. The Asia-Pacific Economic Cooperation (APEC) forum scheduled for November in Peru will present an opportunity for regional coordination on economic integration in the wake of failed WTO negotiations. Climate change also will remain on the bilateral agenda as both governments prepare for the 14th Conference of the Parties (COP 14) to the United Nations Framework Convention on Climate Change (UNFCCC) in Poland in December.

Chronology of U.S.-Japan Relations July-September 2008

July 2, 2008: U.S. Ambassador to Japan Thomas Schieffer meets relatives of Japanese abductees in Tokyo.

July 3, 2008: Cabinet Office poll reveals that only 30 percent of the Japanese public is familiar with Prime Minister Fukuda’s “Low Carbon Society” initiative on climate change. Ninety percent of respondents offered general support for the measure.

July 5, 2008: The office of the U.S. Trade Representative releases the seventh report of the U.S.-Japan Regulatory Reform and Competition Policy Initiative, established in 2001 to promote changes that improve the business climate and enhance opportunities for trade and commerce between the two countries.

July 6, 2008: President Bush and Prime Minister Fukuda meet in Hokkaido, Japan, and discuss the North Korean nuclear issue, U.S. support for Japanese abductees, Japan's contributions in Iraq and Afghanistan, climate change, and economic issues.

July 7-9, 2008: PM Fukuda hosts the G8 summit at Lake Toyako, Hokkaido, focusing on climate change, development and Africa, global economic issues, and nonproliferation.

July 12, 2008: The latest round of the Six Party Talks, the first since September 2007, concludes in Beijing with a general agreement on principles for verifying North Korea's declaration on denuclearization.

July 15, 2008: A poll by *Asahi Shimbun* shows the G8 summit did little to increase PM Fukuda's approval rating, which stood at 24 percent.

July 15, 2008: A government advisory panel submits to the prime minister a report with proposals for reform of the Defense Ministry.

July 23, 2008: The foreign ministers of the parties to the Six-Party Talks meet informally on the sidelines of the Association of Southeast Asian Nations (ASEAN) Regional Forum in Singapore to discuss ways to verify North Korea's efforts at denuclearization.

Aug. 1, 2008: PM Fukuda reshuffles Cabinet to boost his approval rating with a focus on economic revitalization.

Aug. 4, 2008: PM Fukuda's approval rating is 38 percent according to a *Nikkei Shimbun* poll, a 12-point increase from a previous survey in June.

Aug. 5, 2008: Liberal Democratic Party (LDP) Secretary General Aso Taro suggests the ruling party postpone efforts to balance the budget by 2011 in favor of stimulus measures.

Aug. 6, 2008: The Japanese government changes its assessment of the economy to "deteriorating" and concedes Japan may enter a recession.

Aug. 12, 2008: Ambassador Schieffer meets Defense Minister Hayashi Yoshimasa and urges extension of Japan's refueling mission in the Indian Ocean.

Aug. 13, 2008: North Korea agrees to reinvestigate the fate of Japanese abductees by this fall in a bilateral meeting with Japanese Foreign Ministry officials in China. Japan agrees to allow general travel and charter flights between North Korea and Japan once the investigation begins.

Aug. 14, 2008: The first telecommunications satellite built and designed solely by Japan goes safely into orbit.

Aug. 21-27, 2008: Japan encounters resistance to its sectoral approach to greenhouse gas emissions reductions during United Nations Framework Convention on Climate Change (UNFCCC) meetings in Accra, Ghana.

Aug. 27, 2008: A Japanese aid worker is killed by Taliban forces in Afghanistan.

Aug. 27, 2008: A law allowing the use of space for defense purposes goes into effect.

Aug. 27, 2008: In a report submitted to the ruling LDP, the Ministry of Defense requests a 2.2 percent increase in the defense budget for fiscal year 2009 to cover increasing fuel costs and upgrades to the *F-15* fighter fleet.

Aug. 29, 2008: The Japanese government unveils a stimulus package worth \$107 billion.

Sept. 1, 2008: A *Nikkei Shimbun* poll reports PM Fukuda's approval rating falls to 29 percent, a 9 percent drop from early August.

Sept. 1, 2008: PM Fukuda announces his resignation unexpectedly, suggesting that another leader may be better able to handle the challenges of a divided legislature.

Sept. 5, 2008: Fukuda Cabinet approves *Defense White Paper 2008*, which cites concerns about the lack of transparency in China's military build-up and Russian military drills close to Japan.

Sept. 9, 2008: During a hearing in Yokohama district court, prosecutors demand a three-year prison term for a Maritime Self-Defense Force lieutenant commander accused of leaking classified data on the *Aegis* air defense system.

Sept. 11, 2008: The LDP presidential race kicks off with five candidates vying to succeed Fukuda as prime minister: Aso Taro, Yosano Kaoru, Ishiba Shigeru, Koike Yuriko, and Ishihara Nobuteru.

Sept. 11, 2008: Japan's Defense Ministry announces that Air Self-Defense Forces providing airlift support between Kuwait and Iraq would be withdrawn by the end of 2008.

Sept. 12, 2008: Government data shows the Japanese economy contracted at annualized rate of three percent in the second quarter.

Sept. 16, 2008: Bank of Japan moves to stabilize financial markets by injecting an additional \$24 billion into the financial system.

Sept. 17, 2008: Japan's Air Self-Defense Force conducts a successful test of the *Patriot (PAC-3)* missile defense system at the White Sands Missile Range in New Mexico, intercepting a target simulating a ballistic missile.

Sept. 18, 2008: Japan's banks and insurers announce a combined ¥245 billion (\$2.3 billion) in potential losses stemming from the collapse of Lehman Brothers Holdings, Inc.

Sept. 19, 2008: North Korea announces its intention to restore a nuclear reactor at Yongbyon in response to the U.S. failure to remove Pyongyang from the State Sponsors of Terrorism List.

Sept. 19, 2008: Japan's Agriculture Minister Ota Seiichi resigns in the wake of a scandal involving the sale of tainted rice by Mikasa Foods.

Sept. 19, 2008: Fukuda Cabinet approves a bill to extend Japan's refueling mission in the Indian Ocean until January 2010.

Sept. 19, 2008: In a *Jiji News* survey, 31 percent of respondents said they would vote for the Democratic Party of Japan (DPJ) in the next general election while 29 percent support the LDP.

Sept. 21, 2008: Ozawa Ichiro is re-elected president of the DPJ.

Sept. 22, 2008: Aso Taro wins the LDP presidential election race in a landslide.

Sept. 22, 2008: Mitsubishi UFJ Group agrees to take up to a 20 percent stake in Morgan Stanley. Nomura Holdings Inc. buys the Asia units of Lehman Brothers.

Sept. 22, 2008: Japan announces a plan for conducting a missile defense test with the U.S. in November, citing concerns about North Korea's plans to restart its main nuclear complex.

Sept. 23, 2008: Nomura Holdings Inc. announces the purchase of the European and Middle Eastern equities and investment banking operations of Lehman Brothers.

Sept. 23, 2008: Ota Akihiro is re-elected as leader of New Komeito (Clean Government Party), a coalition partner of the ruling LDP.

Sept. 24, 2008: Aso Taro becomes prime minister and forms a Cabinet.

Sept. 24, 2008: The International Atomic Energy Agency (IAEA) announces that North Korea has barred its inspectors from the Yongbyon nuclear facility and intends to restart nuclear processing in a week.

Sept. 25, 2008: Prime Minister Aso addresses the UN General Assembly in New York.

Sept. 25, 2008: The nuclear-powered aircraft carrier *USS George Washington* arrives at Yokosuka naval base amid protests from local residents.

Sept. 25, 2008: An *Asahi Shimbun* poll shows a 48 percent approval rating for the Aso Cabinet.

Sept. 25, 2008: Japan's Finance Ministry reports that Japan posted its first trade deficit in 26 years in August due to rising oil prices and decreased demand in the United States.

Sept. 25, 2008: A poll by *Kyodo News* shows a 48.6 percent approval rating for Aso's Cabinet. The poll also declares Aso a favorite in a head-to-head contest with DPJ president Ozawa Ichiro, garnering 53.9 percent to Ozawa's 29.4 percent. Respondents were split over which party they

would support in the next general election with 34.9 percent favoring the LDP and 34.8 percent siding with the DPJ.

Sept. 26, 2008: Several news organizations publish polls with approval ratings for the Aso Cabinet as follows: *Asahi Shimbun*: 48 percent; *Nikkei Shimbun*: 53 percent; *Yomiuri Shimbun*: 49.5 percent; *Mainichi*: 45 percent. The LDP proved more popular than the DPJ in every poll by an average of 4.5 percent.

Sept. 26, 2008: Foreign Minister Nakasone Hirofumi meets U.S. Secretary of State Condoleezza Rice in New York to discuss North Korea policy, the financial crisis, the situation in Georgia, and counterterrorism issues.

Sept. 26, 2008: During a media availability in New York, Prime Minister Aso expresses support for reinterpreting Japan's constitution to exercise the right of collective self defense.

Sept. 28, 2008: Just four days after his appointment, Nakayama Nariaki resigns as Japan's Minister of Land, Transport, Infrastructure, and Tourism due to a series of gaffes.

Sept. 29, 2008: Prime Minister Aso outlines his agenda in an address to the Diet, touting an economic stimulus package and vowing to extend Japan's refueling mission in the Indian Ocean in support of coalition operations in Afghanistan.

Sept. 29, 2008: The Aso Cabinet approves a ¥1.81 trillion (\$17 billion) supplementary budget for fiscal year 2008 to stimulate the economy.

Sept. 30, 2008: The Japanese government announces that the unemployment rate increased to 4.2 percent, a two-year high. Separate data shows that household spending fell 4 percent in August compared to last year.

Sept. 30, 2008: Ruling coalition partner New Komeito (Clean Government Party) agrees to hold Diet deliberations on the supplementary budget proposal as early as October 6.

Sept. 30, 2008: A poll conducted by public broadcaster *NHK* shows that 72 percent of the public supports Prime Minister Aso's decision to postpone for three years any consideration of a consumption tax increase.

Sept. 30, 2008: The Japanese government announces a six-month extension of economic sanctions against North Korea in response to Pyongyang's failure to reopen an investigation of Japanese abductees and its decision to restart nuclear processing at the Yongbyon complex.

Sept. 30, 2008: U.S. Assistant Secretary of State for East Asian and Pacific Affairs Christopher Hill arrives in Seoul to confer with counterparts in the Six-Party Talks on North Korea's nuclear programs and prepare for an Oct. 1 visit to Pyongyang.